

**USAID/West Bank and Gaza
Results Report and Resources Request
1997-1999**



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Results Review and Resource Request
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PART I: OVERVIEW AND FACTORS AFFECTING PROGRAM PERFORMANCE

The period covered by this R4 report incorporates the initial year of the Strategy approved last April. The Mission is focussing in the FY 1996 - FY 2000 Strategy period on three Strategic Objectives (SOs) in the areas of economic growth (SO 1), water resources (SO 2) and democratic governance (SO 3). These SOs were selected because of their importance in demonstrating tangible benefits of peace to Palestinians, the overall program goal. By its nature, USAID's program is tightly linked to progress in the peace process, to the evolving relationship between the GOI and the Palestinian Authority (PA), and to political directions within the PA. As a result, a number of political and economic factors have affected the program this year and are likely to remain important through the Strategy period. To date these factors have tended to revalidate the Strategy rather than call it into question. However, because of the unique political environment in which the program operates, it is important to review how these contextual factors relate directly to activity implementation and the allocation of program and staff resources.

Closures and Economic Trends: The program has been implemented to date in the context of a generally downward economic trend since the signing in 1993 of the Oslo Agreement, due mainly to the loss of jobs in Israel and decline in trade flows caused by border closures imposed by Israel for security reasons. Real GNP has declined 23% since 1992 and real per capita GNP fell more than 38% during the same period. Unemployment has risen and investment and trade have also declined since 1993, with the worst effects in the last two years. Merchandise exports fell almost one-half between 1992 and 1995. The social and economic impact of Israeli decisions regarding employment in Israel and the movement of goods and people across borders cannot be underestimated: prior to the September 1993 Oslo Agreement, more than a quarter of the Palestinian workforce was dependent on jobs in Israel, with over 100,000 Palestinians working in Israel in 1992. In 1995, this number was down to about 30,000 on average, and in 1996 it was just over 25,000 -- or just 5% of the workforce. Job creation has not been able to keep up with labor force growth, and unemployment has been rising, particularly in 1995 and 1996 as a result of the higher number of closure days in these years. Overall unemployment for 1996 is estimated at 33%.

Despite this situation, economic activity is vigorous in periods of relative tranquillity. After the severe closure early in the year, unemployment briefly soared to up to two-thirds of the workforce in April. However, with gradual relaxation of border restrictions, employment increased, trade picked up, and incomes rebounded. Household expenditures rebounded as well, indicating a stabilization of the situation at the family level. As the end of 1996 and early in 1997 saw further easing of closure, the outlook turned much more optimistic. The IMF projects a GNP growth rate of 8% for 1997, assuming a monthly average of 35,000 workers in Israel and an expansion of merchandise trade. This scenario would mean a real GNP for 1997 just slightly above the estimated level at the end of 1995, and a 2% increase in real per capita GNP as compared to 1996. Unemployment, under these projections, would still be high, falling slightly to 31.5%. Of course, a resumption of stringent border closures would be felt immediately throughout the economy and, depending on their length, affect these projections.

Public opinion polls carried out throughout the year show a high level of support for the peace

process among Palestinians (varying between 70 and 80 percent) despite constraining security measures by the GOI, repeated closure, and deterioration in the economic situation. This apparent resilience in the face of a generally downward trend reveals an interpretation on the part of Palestinians that although the peace process has been accompanied by economic shocks, it remains the best alternative to reach long term economic and political goals. To date, Palestinians have continued to support the process without seeing much yet in the way of tangible benefits. This underscores the importance of the Mission's emphases on microenterprise finance, facilitating access to market, and industrial zone development -- which to some extent work around the closure pattern while also building foundations for longer term economic growth.

Tripartite Relationships: In several areas of the program, USAID must work with both GOI and PA partners, and USAID staff actively facilitate negotiations between the two sides on technical issues. This is most significant in the area of water resources, perhaps one of the most politically charged elements of the peace process. USAID's water resources program is implemented in direct response to the Interim Agreement signed in September 1995. However, since that Agreement made only the most basic allocative decisions regarding water, it remains for the two parties to work together to agree upon the details necessary to operationalize its water provisions. USAID is brokering Palestinian and Israeli negotiations on well siting, location of distribution lines, and other technical issues. The water sector is both the largest area of the Mission's program and its most visible, in that it places the U.S. in the forefront of helping to meet one of the most critical needs expressed by Palestinians. Similarly, although both the GOI and PA have emphasized the importance of establishing "closure-proof" industrial zones, technical details which require GOI-PA agreement, in particular the linchpin security arrangements, have proven to be problematic. Through leadership of a joint technical committee and provision of expert technical assistance, USAID has taken the lead in brokering a series of discussions which began in late 1996 and are continuing. If these fail, the zones idea is not likely to be workable, while if they succeed, aspects of the technical solutions could be used as a model for broader cross-border application. USAID's responsiveness to the need for infrastructure improvements in connection with the Hebron agreement, in particular those aspects of it related to the reopening of the central market street, again place the Mission in a highly visible and significant role, as the reopening of the street was a particular concern for the Palestinians. However, new design concerns raised by the GOI subsequent to the agreement have again put USAID in the role of broker on technical issues. In each case, facilitating tripartite discussions has proven to be a time-consuming process, and has tended to lead to implementation delays.

PA Progress and Political Will: The PA has taken several positive steps to establish functioning government institutions. These include a new ministerial structure and cabinet following the January 1996 elections, and evolving clarity in the role of various ministries. The Palestinian Legislative Council (the "Council") has made significant progress in establishing its basic operating framework, closely assisted by USAID and the EU to improve its ability to operate effectively. With the 1995 Interim Agreement, most of the responsibility for economic management of the West Bank and Gaza was transferred to the PA. During 1996 the PA (with IMF assistance) made considerable progress in performing key economic functions, particularly in fiscal administration, where both revenue collection and expenditure management are measurably stronger. Under very difficult economic conditions, the PA held the budget deficit in check, mainly by improvements in tax administration

and by prioritizing expenditures,¹ although more needs to be done to ensure fiscal sustainability in these areas as well as to rationalize the budget process. Fiscal issues, including difficult questions related to budgetary transparency and consolidation of accounts under the control of the Ministry of Finance, have been raised with some success in donor fora (particularly the high-level Ad Hoc Liaison Committee, or AHLC) and in direct high-level U.S. policy dialogue.² The PA has begun to shift from a short-term approach of meeting emergency requirements to a longer term, strategic approach,³ with some improvements noted in priority-setting in the preparation of the 1997 public investment program.

There is increasing realization by the PA that access to jobs in Israel will not be enough to achieve the kind of economic transformation which is needed to meet the employment needs of Palestinians. The PA is beginning to take measures to improve the enabling environment for private investment, and the Mission will begin an activity in this area this year. However, these initiatives are taking place in a larger political arena in which it is often claimed that closure issues must be resolved before the PA can act to encourage private investors. The challenge to the PA to maintain a focus on longer-term development requirements despite an environment that frequently pushes political concerns to the fore is another topic of high level U.S. policy dialogue. While the PA has made some progress in the last year in building viable institutions of democratic governance, there are worrying signs of a lack of commitment to democratic principles on the part of the Executive. Particularly worrying are recent efforts to exert undue levels of control over civil society institutions and the Council, and to limit media expression. Democratic institutions such as the Council and a vibrant civil society are clearly in a formative stage, and many aspects of the relationships between the Executive and both the Council and civil society remain to be agreed upon. While posing challenges for the Mission's democracy/governance program, this situation also points to the importance of implementing that program on an urgent basis, as it engages the U.S. directly in helping to build consensus on the most essential elements of democratic governance.

PART II: PROGRESS TOWARD OBJECTIVES

¹The recurrent deficit was limited to \$95 million in 1996, only \$20 million higher than anticipated in the draft budget. This is considered a respectable figure in the light of the economic/fiscal impacts of closure in 1996.

²In addition, fiscal issues are discussed at the technical level between donors and representatives of the Ministry of Finance, through the Public Finance Sector Working Group (one of twelve sector-level committees) which USAID chairs. Under USAID's leadership, the Working Group has now shifted to an issue-oriented approach, with more frequent meetings planned on a series of priority public finance issues.

³However, "crisis management" was necessary in 1996, in response to the major closure early in the year. The job creation program mounted by the PA in concert with donors in 1996 directly employed an average of about 13,400 persons per month from early April to the end of September, or about one fifth of the workers who lost their jobs due to the closure. Similar situations in the future will also put pressure on the PA as well as donors for emergency expenditures.

R4 guidance requires Missions to indicate whether objectives are on track or require adjustment. As outlined above, 1996 has been a start-up year for the program outlined in the Mission's Strategy approved last April. Thus, results are not yet available at the Strategic Objective level or for most of USAID's intermediate results. Because of this, and because of the way the program has been and is likely to continue to be affected by political developments, the following narratives include substantial description of the context affecting start-up and implementation at the activity level.

Strategic Objective No. 1: Enhanced Private Sector Economic Opportunities

1. Performance Analysis

a. Objective Level Summary

The Palestinian Authority (PA) has identified the private sector as the principal engine for economic growth and has highlighted the importance of an appropriate enabling environment for private sector expansion. This Strategic Objective emphasizes activities which will ultimately generate jobs and income by improving access to financial services for microenterprises, access to markets for Palestinian goods and services, productivity and competitiveness of Palestinian enterprises and the enabling policy framework for private sector development. Notwithstanding the sensitivity of economic growth measures to the political and security environment, the Mission has set ambitious indicator targets to measure impact on employment, daily wages, and private sector revenue. If these targets are to be achieved, markets for Palestinian exports must be secured; microenterprises provided opportunities for credit; and initial building blocks for the establishment of industrial zones laid⁴. In the medium term, investment - both domestic and foreign - must be attracted to promote sustainable employment generation.

The achievement of this SO is predicated on three critical assumptions found in the Mission's strategy: Israel's limiting of closure, the development of a policy and regulatory framework which will encourage private sector investment, and that Palestinians and Israelis reach agreement on the establishment and operation of industrial zones. Closure, the single greatest danger to the Palestinian economy, creates additional costs to Palestinian producers and decreases competitiveness and the ability to export. The absence of an internationally accepted regulatory framework creates an environment of risk which prevents investors from providing the necessary capital and technology critical for robust economic growth. USAID engages the PA on private sector policy issues through various donor/PA fora, and, in FY97, will begin formal project activities in this area. Furthermore, USAID is taking the lead in facilitating Palestinian-Israeli negotiations and agreement on security issues for industrial zones. Industrial zones development will permit access to markets for Gaza Industrial Estate (GIE) firms during periods of closure and may hasten the adoption of GIE-like access arrangements economy-wide.

Targets also depend on continuing access to jobs in Israel and limiting the number and severity of closures. These are major issues for high-level US policy dialogue.

Following a series of suicide bomb attacks in Israel, a strict border closure was imposed on the West Bank and Gaza in February, 1996 creating a climate of uncertainty for businesses and investors. Immediately, 50,000 Palestinians lost their jobs in Israel. By April 1996, the PA's Ministry of Finance (MOF) and the IMF revised their estimate of GNP growth for 1996 from +6% to -17%. By late June 1996, the closure eased and projections were again revised. MOF and IMF then estimated a real GNP decline of 6%. By August 1996, the economic picture appeared more encouraging. The volume of trade with Israel returned to near pre-closure 1996 levels. Somewhat higher labor flows during the summer of 1996 continued to soften anticipated declines in GNP. It is now estimated that GNP declined by 2.9% in 1996.⁵ Despite difficult economic conditions, progress in 1996 for this SO has been satisfactory. The indicator under IR 1.2 of "increased exports of assisted firms" exceeded its 5% target in 1996, as a result of aggressive efforts to assist firms to reach foreign markets when borders opened. In many instances, although beneficiaries of USAID programming were hurt by closures, the degree to which these enterprises suffered was less than that felt economy-wide. Employment in USAID-assisted firms decreased in 1996 by 10.7%, while the aggregate decrease in employment for 1996 was 20.8%.

b. Intermediate Result-Level Performance Review:

The results framework for SO 1 has not changed substantially since it was approved as a part of the Mission's Strategy in April 1996. IR 1.4, which addresses policy, is now more focused, based on analyses undertaken since the strategy was approved. Even though several activities in support of IR 1.2 and IR 1.3 began in 1995 and results are available for 1996, the baseline year for most of the activities is 1996 (and will be 1997 for IR 1.4). Thus, most results at the IR and SO levels will not be evident until later in 1997.

IR1.1: Increased Access to Financial Services by the Private Sector: USAID activities will assist the formal financial system to expand access to credit on an immediate basis and thus contribute to increases in income and business expansion, while at the same time helping to create sustainable local financing for microenterprises.⁶ Over 90% of businesses in the West Bank and Gaza (estimated at 150,000) can be defined as microenterprises under USAID's definition of having less than ten employees. Chronic closure and the resulting income effects have tended to increase the number of microenterprises and, most likely, the proportion of them headed by women.⁷

USAID is employing a two-track approach to microenterprise development. USAID provided \$1.2

Economic statistics are based on IMF and UNSCO estimates.

Also on-going since 1994 is USAID's Loan Portfolio Guarantee (LPG) program which reaches somewhat larger businesses. In FY96 a total of 300 loans were made by two participating banks totalling \$3.4 million. The LPG average loan size is \$11,000.

A trend toward increased women's participation in the labor force may become a regular feature of the Palestinian economy and is likely to translate into an increased demand for microcredit, given the predominance of women in the microenterprise sector.

million in loan capital in October 1996 to expand Save the Children (SCF) and UNRWA microlending programs. By January, 1997, UNRWA had fully utilized the \$418,171 in loan capital provided to it by USAID. 534 loans were made by UNRWA and 80% of borrowers were women. Repayment has averaged 98%. SCF provided 850 loans (all to women) beginning in October 1996, with \$258,000 in loan capital. By the time these grants end in FY 98, they will have provided a total of 8,500 short-term working capital loans. The programs are expected to continue without USAID support.

Also during 1996, the Mission took steps to interest local commercial banks in undertaking microenterprise lending programs by exposing bank representatives to microfinance technologies, in particular the model used by the Alexandria Business Association in Egypt. Assuming timely implementation, FY 98-FY 2000 resources for microenterprise development will be concentrated in support of the commercial banking sector's adoption of microlending. No commercial banks currently provide microloans. By early 1998, USAID proposes to have 2 commercial banks participating with a total of 4 branches loaning out \$6,000,000 annually. By the end of 1999, this number should rise to 8 branches loaning out a total of \$10,000,000 annually. Initial loans will generally range from \$1,000 - \$2,000 and be capped at \$10,000. USAID will provide technical assistance, training, and risk sharing, but will not provide loan capital for these activities. In FY 98 and FY 99, IR-level targets project a 5.4% annual increase in the value of outstanding active private sector loans provided through formal financial sector institutions per year. Indicator targets also project an increase in the percent of costs recovered under USAID-sponsored microenterprise finance programs, with the commercial bank program reaching full cost recovery by 2001 and NGO programs doing so in 2000 (UNRWA) and 2002 (SCF).

USAID and the World Bank are the principal donors promoting the creation of a formal, sustainable, and institutionalized private sector credit infrastructure. Under the World Bank/IFC program, small and medium sized businesses will be targeted by participating commercial banks for working capital loans averaging \$15,000. Start-up enterprises will be eligible to receive working capital loans under the World Bank program, unlike USAID's program. While these programs seek to strengthen bank commitment to and performance in expanding loans to "non-traditional" borrowers, the World Bank's projected \$60 million Financial Sector Development Program (FSDP) will improve the overall efficiency of the financial sector. By promoting leasing and secured lending and providing incentives to mitigate risks and encourage medium and long-term lending, FSDP will encourage the reinvestment of an estimated \$1.7 billion in commercial bank net liquid assets.

IR 1.2: Increased Access to Markets by Industrial Sector: The lack of adequate and timely market information at the firm level, and the difficulties encountered by Palestinian firms attempting to market their products across borders with Israel and elsewhere are constraints to economic expansion under IR 1.2. The Small Business Support Project (SBSP), implemented through a contract with the U.S. firm, DAI, provides technical assistance to help Palestinian firms gain access to export markets. In 1996, the SBSP provided price and market information, assistance in the selection of appropriate technology, laboratory testing and product certification, product promotion and distribution assistance, and other forms of export marketing support. In addition, SBSP seminars promote improvements in production, quality control, marketing, product standards, and business operations.

To date, 1,979 people have participated in such programs. In September 1996, the Mission refocused the SBSP to enhance firm-level impacts and extended the program through FY 99.

Exports of SBSP-assisted firms exceeded FY 96 targets, while overall Palestinian exports for 1996 decreased by approximately 15%. However, SBSP-assisted firms also reported a 10% decrease in the value of their total sales, reflecting the effects of closure and the high dependence of Palestinian firms on the domestic market. To promote increases in export-oriented growth, the SBSP has targeted the Gulf region as a new market for Palestinian products. In March 1997, the SBSP organized the Palestinian Products Exhibition in Dubai to assist Palestinian firms penetrate Gulf markets. More than 3,000 representatives of potential importers attended the exhibition. Preliminary indications are that at least a third of the 70 firms who exhibited their products will sign export contracts and ship up to 60 containers of goods as a result.

The Mission is supporting the establishment of the Gaza Industrial Estate (GIE) as a key tool to improve access to markets. As planned, the GIE will adopt unique security procedures to alleviate impediments to market access caused by closure and will create the political and economic framework to expand industrial estates to other sites. Over \$20 million has been pledged to establish the GIE; the World Bank has provisionally planned (subject to Bank approval in mid-1997) \$12 million, Israel has cited a \$7 million contribution and USAID has committed \$6 million to complete the necessary off-site infrastructure. In 1996, USAID financed a conceptual plan for off-site infrastructure including access road improvements, power transmission, telecommunication facilities, and water and waste water requirements. This plan has been used as the basis for Palestinian and Israeli teams to reach decisions in a timely manner. USAID's contribution to off-site infrastructure design and construction (with a focus on water systems) is underway with a contract signed in January 1997. Development of on-site infrastructure (at an estimated cost of \$39.5 million) will be provided by the private developer with possible financing from the IFC and EIB. Critical to the success and replication of the industrial estate idea is the adoption of an internationally competitive Industrial Estate Law, an Investment Law providing appropriate incentives, and a functioning industrial estate authority. The Mission provided initial assistance to the PA in drafting the Industrial Estate Law and defining the parameters for establishing an industrial estate authority⁸ and further assistance is under consideration for FY 97. Security remains the largest hurdle to overcome. USAID is facilitating Palestinian-Israeli discussions on the adoption of stringent, technology-based security measures which can be fully operational during closure.

GIE operations are scheduled to begin in FY 98 for the initial tenants, who are expected to be Palestinian and Israeli companies in the construction, plastics, wood, food processing, chemical, metal, textile, garment, or paper industries. FY 98 shipments are expected to reach \$1.5 million with 2,000 people (1,400 women) employed. FY 99 shipments are projected to increase to \$7 million with employment climbing to 6,000 (4,200 women). Ultimately, the GIE is estimated to provide 20,000 direct jobs and up to 40,000 indirect jobs through feeder industries off-site.

The World Bank is also assisting with the enabling environment for industrial zones.

IR 1.3: Enhanced productivity of the Industrial Sector: IR 1.3's Performance Indicators remained on track in 1996 as SBSP-assisted firms continued to exceed economy-wide performance. SBSP assists Palestinian firms to meet international standards to improve access to foreign markets. The number of firms projected to receive ISO 9000 certification is in line with 1998 targets of 9 (1997 targets are zero as certification is a year long process). By FY 99, 12 firms with over 720 employees are expected to be certified. SBSP also assisted industrial firms to increase their capacity utilization. FY 98 and FY 99 targets for firms reporting an increase of 10% or greater in increased capacity utilization are expected to be met, although these targets are extremely sensitive to closure.

The Mission's Strategy states the desirability of funding sustainable, demand driven, complementary programming to support existing activities in technical skills training. USAID-supported activities through a YMCA grant provide job placement and equipment rental for graduates of technical skills training programs. The YMCA activity seeks to increase the income of new training recipients by 55% by placing participants in private sector jobs in their field of training. In addition, the YMCA provides equipment loans to entrepreneurs on a fee basis. YMCA equipment loan program and placement activities exceeded FY 96 targets, creating 517 new jobs. Barring an increase in border closure days, it is expected that the YMCA will meet its FY 97 targets.

IR 1.4: Policy Environment for Equity Mobilization Improved: Significant expansion in economic opportunities for Palestinians in the medium to long term will require a large and sustained increase in private sector investment, particularly in the industrial sector (which currently contributes less than 9% to GDP). While private investment is inhibited by the high commercial risks associated with closure and political uncertainty, equally important is the absence of an appropriate legal and regulatory framework. This IR will focus on policy and related initiatives that protect investor interests and encourage the mobilization of equity finance.⁹ USAID's proposed focus on the "equity side of the market" has been welcomed by the Ministry of Finance and by other donors, who view it as complementary to their efforts to mobilize investment credit through the formal financial system.

Until now, the only source of equity finance for corporate investment has been through private placements and individual or family savings. The opening of the Palestinian Securities Exchange (PSE) in Nablus in February 1997 was an important first step toward a functioning equity market. The PSE is in a pilot phase, open only one day a week and trading a limited number of Jordanian securities within a fixed price range. In order for the PSE to mobilize large amounts of equity capital, the exchange must operate within a regulatory structure incorporating rules and procedures for trading, corporate reporting, regulations of public offerings, regulation of investment funds, and protection of investors. There are, in addition, no mechanisms to give the market greater stability and volume through the mobilization of institutional capital through pension funds, insurance funds or other sources of contract savings. A trust law is needed to govern the investment of funds and establish the responsibility of fiduciaries to act with integrity toward investors. The lack of generally accepted accounting and auditing standards -- and thus the reliability of information presented by a firm -- limits the expansion of both equity and credit financing.

It is anticipated that the Mission will work in two principal areas. First, activities will be undertaken to put in place the essential legal prerequisites for successful mobilization of significant amounts of equity capital. Results in this area are likely to include passage of an appropriate trust law and securities market law (the current draft needs revision), and laws governing insurance, pension funds, and compliance with generally accepted accounting principles. Second, and over a somewhat longer period (through the end of the Strategy period), assistance will focus on helping the Ministry of Finance implement policies and procedures which encourage and facilitate expansion of equity markets. Results in this second area are likely to include an enhanced regulatory framework for (1)

⁹A 1996 USAID-funded review noted critical gaps in the legal framework for banking and finance, both for term credit and equity markets, as well for secured business transactions. Banking, central banking and tax policy, including development of the appropriate enabling legislation, are the focus of IMF assistance to the Ministry of Finance. The World Bank is mounting a major program (as discussed under IR 1.1) to modernize the banking system and improve the environment for term credit. The World Bank and other donors (including the EU, Australia) are helping to modernize various laws governing commercial transactions and establish a registry of commercial assets. Critical to the development of equity markets (and also to improving the prospects for term credit) are a trust law; laws on financial accounting and auditing; the legal framework for contract savings institutions (insurance, pension) and a securities markets law. A draft investment law exists, but is problematic. It is under review by the Ministry of Trade and Economy with the assistance of the World Bank and FIAS. This review will lead to either a recrafting of the law or issuance of clarifying implementing regulations.

securities market regulation, monitoring and surveillance; (2) oversight of the insurance industry; and (3) management of pension fund assets in accordance with appropriate fiduciary standards.

Although indicators for the IR will not be finalized until further analyses are complete, it is anticipated that an improved policy environment for equity mobilization will lead to results such as an increase in business starts (or business expansion) financed through equity instruments; an increase in the number, type and volume of financial instruments traded in the securities market; and an increase in the amount of capital invested in the PSE from pension funds and insurance funds. Activity development is underway, with support (largely technical assistance) to begin this FY. Full implementation is anticipated for FY 1998.

2. Expected Progress through FY99 and Management Actions

The likelihood that the objective will be accomplished within the original time period is to a large extent dependent on the three critical assumptions mentioned above. If security arrangements for the GIE cannot be finalized, USAID will need to reconsider its support in this area and its strategic approach under IR 1.2. Although USAID activities are negatively affected by border closures, this does not necessarily translate into failure to achieve IR-level indicator targets. Programming in the areas of microenterprise, industrial estate development and productivity enhancement are specifically designed to attain acceptable levels of results despite border closures. Although no management actions are required at this time, an increase in 1997 in the number of closure days over that experienced in 1995 and 1996 (and a further decrease in the number of workers in Israel) might affect results targets and require the Mission to examine the implications for its SO 1 results framework.

3. Performance Monitoring Tables

The Performance Monitoring Plan for this SO was developed between September 1996 and February 1997. A complete set of indicators has been defined for the first three IRs and their respective sub-results and baseline data are available for most indicators. Many of the indicators will be measured through activity reporting, while others depend on national level surveys provided by the Palestinian Central Bureau of Statistics, the World Bank, and local analytical organizations. Data for some indicators will be collected directly by the Mission. Baselines and targets for IR 1.4 will be finalized after additional analyses are completed and activities identified later this FY. Included below are SO-level indicators and selected IR-level indicators for which results are available for 1996.

STRATEGIC OBJECTIVE 1: Expanded Private Sector Economic Opportunities			
RESULT NAME: SO 1: Expanded Private Sector Economic Opportunities			
Indicator 1 (a): <i>Proportion of the labor force fully employed, male and female</i>			
Unit of Measure: %	Year	Planned	Actual
Source: The PCBS <u>Labour Force Survey</u> series expected to be published annually.	1996(B)		M: 37% F: 8.8%
Indicator Description: The proportion of males and females, respectively, aged 15 years and older in both the West Bank and Gaza that are considered fully employed. All those 15 years of age and older are included whether or not classified as economically active. Fully employed defines those working 35 hours or more per week.	1997	M: 40.8% F: 9.5%	
Comments: This employment data covers all employment, both private and public sector. Targets were determined based on an estimated 8% GNP growth rate.	1998	M: 44.0% F: 10.5%	
	1999	M: 50.0% F: 12.0%	
	2000(T)	M: 60.0% F: 14.0%	

STRATEGIC OBJECTIVE 1: Expanded Private Sector Economic Opportunities			
RESULT NAME: SO 1: Expanded Private Sector Economic Opportunities			
Indicator 1 (c): <i>Private Sector Revenue</i>			
Unit of Measure: Index	Year	Planned	Actual
Source: The PCBS <u>National Accounts Report Series</u> expected to be published annually. The first report is expected by late March 1997 and will be based on 1994 data. Data for 1995 and 1996 should be available in January 1998.	1996 (B)		100
Indicator Description: Private sector revenue is based on gross sales receipts. Using the private sector gross sales receipts in 1994 as the interim baseline and assigning it an index value of 100, the index is calculated by dividing subsequent year values by the 1994 base value. 1994 data will be replaced with that for 1996 when available.	1997	105	
Comments: No data series currently exists to capture this indicator but PCBS has stated that this information will be included in the new <u>National Accounts Report</u> to be made public soon.	1998	111	
	1999	117	
	2000(T)	124	

STRATEGIC OBJECTIVE 1: Expanded Private Sector Economic Opportunities			
INTERMEDIATE RESULT 1.2: Increased Access to Markets by the Industrial Sector			
Indicator 1.2.1 (a): <i>Exports of assisted firms</i>			
Unit of Measure: % Change	Year	Planned	Actual
Source: USAID activity data information systems.	1995 (B)		0
Indicator Description: The collected value of exports for all the firms assisted by USAID activities in the specified year. It includes exports this year from firms newly assisted this year plus exports from those assisted in prior years.	1996	+ 5%	+ 5.1%
Comments: The information for the indicator is collected as part of the SBSP internal monitoring system. The tendency of firms to misrepresent figures with potential tax implications will be controlled by cross-checks performed by SBSP staff working with the firms on a daily basis.	1997	+ 5%	
	1998	+ 5%	
	1999(T)	+ 5%	

STRATEGIC OBJECTIVE 1: Expanded Private Sector Economic Opportunities			
INTERMEDIATE RESULT 1.2: Increased Access to Markets by the Industrial Sector			
Indicator 1.2.1 (b): <i>Value of total sales in assisted firms.</i>			
Unit of Measure: U. S. Dollar value (in millions)	Year	Planned	Actual
Source: USAID activity data information systems.	1995 (B)		\$20.3
Indicator Description: The collected value of new contracts executed by firms assisted by USAID activities in the specified year. It includes only those new contracts that can reasonably be attributed to USAID sponsored assistance and is cumulative from year to year.	1996	\$23	\$21.0
Comments: The information for the indicator is collected as part of the SBSP internal monitoring system. The tendency of firms to misrepresent figures with potential tax implications will be controlled by cross-checks performed by SBSP staff working with the firms on a daily basis.	1997	\$26	
	1998	\$29	
	1999(T)	\$32	

Strategic Objective No. 2: Greater Access to and More Effective Use of Scarce Water Resources

1. Performance Analysis

a. Objective Level Summary

The allocation and management of water resources are perhaps the most critical factors in the economic and social development of the West Bank and Gaza; there is also an overall gap between water supply and demand region-wide. Therefore, water issues are among the most politically charged aspects of negotiations between the Palestinians and Israelis, with direct implications for the broader Middle East peace process. Because of the centrality of water to development in the West Bank and Gaza, USAID will have a major focus on the water sector over the period of its approved Strategy (FY 1996-FY 2000). At least \$350 million of other-donor financing has been committed to water projects between 1994-1996.

Preliminary data indicate that metered domestic consumption among Palestinians averages only 56 liters of water per day (the World Health Organization's minimum standard is 150 l/c/d). Approximately 43% of water that enters the system in the West Bank and Gaza is lost due to leaks or unaccounted-for use. Furthermore, it is estimated that less than 30% of raw sewage is collected and an even smaller amount is properly treated/disposed. To respond to this grave situation, USAID has initiated a broad program of assistance to increase water supply, promote integrated management of resources, and encourage market-oriented mechanisms for resource allocation. This Strategic Objective was developed in direct response to the joint Israeli-Palestinian request for support to implement the immediate-stage water program outlined in Article 40 of the Oslo II Accords. Initially, USAID will provide this support by developing major water supply and transmission systems with its own resources, while mobilizing other-donor support for complementary facilities and institution building. During 1996, the Mission put the basic contracts in place to accomplish the first phase of its water program. USAID has also supported the efforts of the Palestinian Water Authority (PWA) to strengthen the role of the Local Aid Coordination Committee (LACC) in coordinating donor support, specifically through the formation of a water/wastewater core group within the Infrastructure Working Group.

The start-up of a number of key activities has raised a series of political and logistical issues that will ultimately determine the extent to which this Objective is achieved. These issues relate to GOI concerns regarding the staging and structure of Article 40. The GOI has also questioned the capability of the Palestinians to assume responsibility for the operation and maintenance of water infrastructure in the West Bank. As a result, there are a number of very real obstacles to rapid implementation of Article 40 and USAID's Strategic Objective. Most significantly, Israeli authorities have not issued the required permits in a timely manner for the drilling of major new wells, thereby delaying USAID initiatives in this sector.

b. Intermediate Result-Level Performance Review:

IR 2.1: Increased Water Supply: In June 1996, USAID signed a \$46 million contract with Camp, Dresser & McKee/Morganti (CDM) to assist the Palestinian Water Authority (PWA) in developing a water Master Plan for the West Bank and Gaza, design and drill wells, construct transmission and distribution lines, and improve management systems for the sector. Despite CDM's rapid mobilization, implementation has been problematic from the start. CDM has prepared a draft Master Plan through the year 2040, designed 4 production wells and 9 monitoring wells, and established technical options for transmission system upgrades to handle increased supplies in Jenin and Bethlehem-Hebron. In total, the four production wells--which are now scheduled to be drilled between June 1997-March 1998--should result in an increase of 6 million cubic meters/year of potable water supply. These wells will complement additional supplies (approximately 4 million cubic meters/year) that could be available shortly from two new wells already drilled with German and GOI financing. Likewise, USAID funded the upgrading of a major transmission main in Hebron and the construction of water distribution systems in ten West Bank towns with a total population of more than 46,000. Through a separate mechanism, USAID has also provided piped water to three villages previously unconnected to the grid (total population of 10,000) and rehabilitated services in two other localities, despite significant delays in obtaining required permits from the Joint (Israeli-Palestinian) Water Committee (JWC).

The obstacles confronted to date, some of which can to a limited extent be attributed to the PWA's inexperience, include a lack of hydrological data and permits for aerial photography, access for survey teams, inadequate arrangements for residency of contractor staff, constraints on importing equipment/materials, confusion related to pipe alignments/rights of way, an absence of adequate electrical power at well sites, and delayed sites acquisition. While each of these issues has already affected the timing of assistance and could increase USAID's costs, the most significant problem to date relates to the issuance of permits for well-drilling, land use and transmission/distribution systems from the GOI. In June 1996, the PWA initiated the process to obtain 3 well-drilling permits, based on a list of recommended sites provided by the GOI. In December 1996, procedures for a fourth permit were begun. As of mid-March, USAID is still unable to proceed with planned well-drilling procurements.¹⁰ Likewise, the Catholic Relief Services (CRS) has continually had problems in gaining permits to install new village water distribution systems; in the future CRS will focus assistance on upgrading existing systems.

Beginning this year, USAID will complement the drilling of wells with the provision of testing equipment and training to ensure water quality through a PASA with the U.S. Geological Service. In addition, CDM, the UNDP and at least one other grantee/contractor will work to improve systems in the Jenin area (including a new distribution system for eleven outlying villages) and Bethlehem-Hebron by mid-1999. By its completion in March 1998, the CRS program will have resulted in improved water distribution systems in 12 West Bank villages with a total population of 40,000. In

¹⁰ Three permits were recently issued, but two were for different coordinates than requested. While there is no apparent technical basis for these changes, the re-design and increased construction costs would require an additional \$1.5 million USAID contribution. Therefore, an invitation for bids still can not be issued. It is estimated that it costs USAID an additional \$100,000 each week that the procurement for construction services is delayed.

FY 1998, USAID plans to initiate the second phase of this SO, which will include the drilling of additional new wells, improving hydrological modeling, expanding support for transmission line improvements, and research related to desalination. This assumes resolution of the issue of permits and ongoing complementary work by other donors in the area of well development and the upgrading/ expansion of distribution systems.

IR 2.2: Integrated Management of Water Resources: During the last year, the emergency phase of the Gaza Wastewater Project was completed by UNRWA, with 38.5 kilometers of sewers cleaned, 2 kilometers replaced, the Sheik Radwan Reservoir and Pump Station rehabilitated, and the Waqf drainage area dredged and a force main installed. The net result of this work has been a noticeable reduction of flooding in Gaza City. More importantly for the ultimate achievement of this IR, the emergency phase included the provision of equipment and technical support to the Municipality of Gaza that will be the institutional basis for the next phase of assistance, to be provided primarily through the \$24 million contract USAID signed with Metcalf & Eddy (M&E) in April 1996.¹¹

Since mobilizing in May 1996, M&E has undertaken a master planning and design process with the Municipality of Gaza--which has included the PWA, other donors and local technical/community leaders--to establish a plan for waste and storm water management in the City through the year 2025.¹² By April, detailed decisions will be made that will lead to the initiation of specific USAID-funded construction activities shortly thereafter. The Municipality and PWA will also use this Master Plan to solicit complementary support from other donors. The resulting package of interventions will be designed to establish a system of affordable waste removal, separating waste and storm water, applying appropriate treatment and disposal techniques, and re-using/re-charging with treated waste and storm water. Significant progress has been made in promoting public support for these initiatives, establishing them as a political priority, ensuring good working relations with the City, UNRWA and other actors, and coordinating with other donors.

During the next two years, the Mission will finance a significant portion of a comprehensive program of waste and storm water management in Gaza; it is estimated that USAID assistance will lead directly to the upgrading of services to 60% of the households in the City. To complement this construction, in 1997 the Mission will initiate support for the expansion of the Gaza Waste Water Treatment Plant to handle an additional 18,000 cubic meters/day of effluent. This effort will provide relief over the next several years from the sewage overflow problem in Gaza, and will probably allow some re-charge/re-use options to be carried out. However, this will still not result in the adequate treatment of 100% of Gaza City's sewage. Longer-term solutions will be sought within the context of the overall Gaza Strip Master Plan, which is being developed with French financing and

In addition, the Save the Children Federation (SCF) has improved water and sewage services in two neighborhoods of Gaza City; the population in these areas is 15,000. USAID's Grant to the UNDP to generate emergency employment opportunities in Gaza has also resulted in the upgrading of water services to 37,000 residents and increased the volume of water available for future re-use/re-charge schemes.

¹² CDM's master planning process is also addressing the issue of waste water in relation to new supplies developed with USAID funding in Hebron-Bethlehem, Jenin and Nablus and broader planning for the West Bank.

will probably include a regional treatment system within 10-15 years. By the end of FY 1997, SCF will have completed the upgrading of water/sewage systems in three neighborhoods in Gaza City and an adjacent area of Jabaliya. While small in scope (total of 25,000 beneficiaries), this initiative is important because the four areas selected are among the poorest in Gaza and it serves as a model for people-level interventions by addressing the health, social and economic aspects of the water sector as a single package. Additionally, USAID's support for the development of the Gaza Industrial Estate (GIE), while primarily meant to increase private sector economic opportunities for Palestinians, will also serve as a pilot for the use of brackish water, and re-use of waste water for industrial purposes and aquifer re-charge. It is expected that more than 1 million cubic meters of water will be processed at the GIE for such purposes beginning in 1998.

Currently, several other donors are supporting pilot or full-fledged wastewater initiatives in the West Bank (Germany, Italy, Finland, the World Bank), thereby allowing USAID to focus resources on waste/storm water in Gaza and water supply in the West Bank during the first phase of this SO. Likewise, other donors (e.g., Germany, France, U.K) have taken the lead in supporting leak prevention efforts. Depending on the level and emphasis of future other-donor investment, by 1998/1999 the second phase of this SO is likely to include USAID-funded activities related to municipal/village-level integrated management, loss prevention and demand-side management, improved irrigation/cropping methods, promotion of non-potable water use, and environmental protection for the Eastern and Gaza Coastal Aquifers.

IR 2.3: Market-Oriented Allocation Mechanisms: The overall master planning processes and institutional support now underway through the CDM and M&E contracts will ultimately lead to specific interventions in this area and progress against the Mission's performance indicators. No such USAID activities are yet underway, but they are likely to be part of the second phase of this SO to be initiated next fiscal year. However, CDM has supported efforts by the PWA to establish a management information system and the Master Plan will identify areas of technical assistance that will be essential to the ultimate achievement of this IR. Likewise, the Mission's ongoing policy dialogue is reflected in the PWA's draft "Elements of a Palestinian Water Policy" which emphasizes the need to treat water as an economic resource, prioritizes the integrated management of water for domestic, industrial and agricultural uses, and envisions the exploitation of alternate sources and re-use/re-charge schemes.

Since the actual levels of costs and cost recovery for the overall West Bank and Gaza water system still have not been determined, the baseline has not been established for this IR's primary performance indicator, cost recovery. However, cost recovery ranges from 31% to 96% for eight sub-systems that were recently surveyed. In order to ensure 100% recovery of operation and maintenance costs by the year 2000, the Mission will, in coordination with other donors (e.g., Norway, World Bank), provide technical assistance through CDM and engage in a policy dialogue designed to assist the Palestinians to improve their planning/regulatory function, develop a tiered tariff structure (different charges based on water quality, cost of delivery, types of uses), and promote the eventual privatization of service delivery. Finally, in FY 1998 the Mission will initiate a new activity designed to strengthen the technical and administrative capacity of municipal-level authorities in the West Bank and Gaza to promote the integrated management and market allocation

of water resources.

2. Expected Progress through FY 1999 and Management Actions

An increase in domestic consumption rates (resulting from new supply development, re-use schemes, exploitation of non-conventional sources, loss prevention and conservation) from the current 56 liters/capita/day level (estimate) to 62 liters/capita/day, improvement of transmission/delivery systems for approximately 720,000 West Bank residents, and expansion of the system to another 170,000 people within the next 2-3 years will constitute major benefits for Palestinians. Additionally, while the specific target cannot be established until the master planning process is complete, a significant increase in the volume of waste water collected/treated and re-charge of aquifers will positively impact on the environment. Finally, full recovery of operating costs, which should occur by the year 2000 if not sooner, will be a first step towards the ultimate sustainability and privatization of water delivery services in the West Bank and Gaza. As cited above, political obstacles are likely to lead to adjustments of implementation plans in the short-term and, possibly, to substantive modifications of the SO in the medium-term. However, at this time those elements of the Mission's Management Contract related to this sector remain valid.

3. Performance Monitoring Tables

The Mission's Performance Monitoring Plan for this SO will be further refined after the completion of the two master planning processes and establishment of the CDM/PWA management information system later this year. Even then, it is likely that system-wide input and household-level details will not be available for another 2-5 years. However, the Mission has worked with CDM, M&E, the PWA and the West Bank Water Department to use available data to tentatively establish the baseline situation in the sector (in general, as of 12/95), and set targets for the SO's primary indicators. Additional data for SO- and IR-level reporting will be provided by M&E, future contractors/grantees and other donors, especially in pilot areas where indicators will measure progress almost exclusively based on activity-specific results (e.g., loss prevention, conservation, re-use/re-charge).

Primarily due to the lack of household data, the Mission will not report against two of the SO-level indicators cited in last year's Strategy (% of population consuming at least 70 and 150 liters/day). The Mission will, however, for its own management purposes track average consumption by district as a proxy indicator for equitable allocation of water. The Mission has dropped a third SO-level indicator, percentage of households connected to the water grid, because household data are not available and estimates by district are so high (92%) that measurable changes can not be expected during the Strategy period. At the IR level, the Mission will track the number and effectiveness of connections in districts that are the target of USAID support for transmission/distribution systems.

Strategic Objective 2: Greater Access to and More Effective Use of Scarce Water Resources			
RESULT NAME: SO 2: Greater Access to and More Effective Use of Scarce Water Resources			
INDICATOR: 2(a) <i>Domestic consumption rate (metered)</i>			
UNIT OF MEASURE: liters/capita/day SOURCE: PWA database, developed by CDM INDICATOR DESCRIPTION: Based on domestic supply minus losses (physical losses and unaccounted for use) COMMENTS: 56 is a preliminary estimate. More definitive data will be available by mid-1997 based on CDM/PWA MIS. Preliminary 2000 target based on increased supply of 23 million m ³ /yr and 10 million m ³ /yr from non-conventional sources, and 10 million m ³ /yr re-used, 4 million m ³ /yr losses prevented, and 8 mm ³ /yr water conserved. Based on population est. of 2 million in 1995--->2.5 million in 2000	YEAR	PLANNED	ACTUAL
	1996		56
	1997	57	
	1998	58	
	1999	60	
	2000	62	

Strategic Objective 2: Greater Access to and More Effective Use of Scarce Water Resources			
RESULT NAME: SO 2: Greater Access to and More Effective Use of Scarce Water Resources			
INDICATOR: 2(b) <i>Agricultural and industrial requirements met with non-potable sources</i>			
UNIT OF MEASURE: Percentage SOURCE: Project reports from USAID contractors for volume from non-potable sources; PWA for overall requirements INDICATOR DESCRIPTION: N/A COMMENTS: While non-potable sources may now be used on an extremely limited, un-regulated and non-systematic basis, the impact is considered negligible. Estimated total industrial/agricultural supply in 2000 = 170-180 million m ³ /yr, 2000 use = 100 million m ³ /yr	YEAR	PLANNED	ACTUAL
	1996		0
	1997	0	
	1998	1	
	1999	3	
	2000	6	

Strategic Objective 2: Greater Access to and More Effective Use of Scarce Water Resources			
RESULT NAME: IR 2.1: Increased Water Supply (urban)			
INDICATOR: 2.1(a) <i>Gross Volume of Potable Water Supply (urban)</i>			
UNIT OF MEASURE: Million meters ³ /year SOURCE: PWA data provided by CDM INDICATOR DESCRIPTION: Total supply minus supply for agricultural uses (currently 64% of total) COMMENTS: 92 million m ³ /year is an est. as of 12/95. More precise data will be available in mid-97 based on CDM/PWA MIS. Targets reflect increases from new well development only.	YEAR	PLANNED	ACTUAL
	1996		92
	1997	96	
	1998	102	
	1999	108	
	2000	115	

Strategic Objective No. 3: More Responsive and Accountable Governance

1. Performance Analysis

a. Objective Level Summary

USAID assistance aims to increase the participation of civil society organizations (CSOs) in public decision making and government oversight; enhance the capability of the Palestinian Legislative Council (the Council) to perform functions of a legislative body; enable the Executive Authority (EA) to perform its legislative and public policy functions more effectively; and establish the foundation for decentralized local government.¹³

In January 1996, elections were held for the Council and head of the Executive Authority. Following the elections of these interim bodies, the EA developed a new cabinet and ministerial structure. The passage of the local elections law in December 1996 signifies commitment to putting a new, permanent democratic institution in place. Municipal elections are scheduled for later in 1997. Much of USAID's assistance under this SO is geared toward helping the new Palestinian executive, legislative and local government institutions as well as civil society establish the capacity -- in many cases the basic skills and procedures -- to perform their respective roles in establishing more responsive and accountable governance. Assistance is also directed at an appropriate enabling environment for civil society participation and decentralized local government. Although the Palestinian public remains strongly committed to the peace process, they began with high expectations of the new institutions of governance and have increasingly come to realize weaknesses in them¹⁴. If popular expectations of the governing authorities are not met, it is unclear how long the strong level of support for the peace process will continue. Thus, the development of these institutions is at a critical juncture.

Several critical assumptions were set forth in the strategy and remain valid: (1) That the PA establishes the enabling environment for civil society participation. Recent arbitrary restrictions imposed by the PA on some NGOs and the continued lack of a clear legal framework are extremely important policy concerns which are being addressed by the U.S. in concert with other donors. The Mission has targeted FY 98 for an enabling NGO law which sets appropriate limits to PA control of local NGO operations. (2) That the roles and responsibilities of the Council and local government are defined in a manner that facilitates good governance. USAID assisted the Council as it developed a draft Basic Law which separates and defines executive and legislative functions in a manner generally consistent with democratic constitutional norms. While passage of the Basic Law appears unlikely in the near term, the Council is nonetheless undertaking its legislative and oversight functions, has the authority to originate legislation, and is approving legislation originated

¹³USAID's assistance is closely coordinated with that of other donors. USAID's IRs are balanced by other donor support in the areas of general civil service development and public administration support; strengthening budget capabilities and revenue administration; and rule of law. USAID undertakes joint planning and monitoring with the EU for legislative council support. Planned support to new local governments will be coordinated with the World Bank, UNDP and other donors already or planned to be active in this area.

¹⁴According to bi-monthly polls conducted by the Center for Palestine Research and Studies (CPRS).

by the EA. The Minister of Local Government has taken the lead in promoting an appropriate role for local governments. Political will in this area will be further assessed as part of initial activity development for local government support. (3) That the Palestinian Authority remain committed to basic democratic principles. This overarching assumption is monitored by the U.S. and influenced by high-level policy dialogue (with the Council as well as the Executive). The Strategy notes that the Mission may undertake rule of law and media/press activities in the future. Given the lack of change in the political context for rule of law reform (and an impending World Bank project), the Mission does not intend to develop a rule of law activity at this time. However, new media/press activities are possible as part of the civil society IR.

b. Intermediate Result-Level Performance Review

The results framework for SO 3 has not changed substantially since it was approved as a part of the Mission's Strategy last year. However, a previous IR which incorporated both the Council and EA performance has been split, with separate IRs to highlight the distinct roles each institution plays in the policy making process. The discussion below of IR 3.4 (local government) includes a more explicit definition of the result and a more developed analysis of its rationale than was possible one year ago. Most of the activities under the SO began between October 1996 and March 1997 (local government activities are currently under development and will begin following the local elections). The baseline year for most indicators is 1996 or 1997. Results will begin to be evident at the IR and SO level in FY 97, but will be much more substantial in FY 98.

IR 3.1: Increased Participation of CSOs in Public Decision Making and PA Oversight: USAID is the only donor focusing on strengthening CSO participation in governance, with activities to strengthen CSO capacity in public decision-making and government oversight. Activities were underway during FY 1996 through the National Democratic Institute for International Affairs (NDI) and the International Republican Institute (IRI). NDI's Civic Forum seminars reach 8800 Palestinians (half of whom are women) each month with topics such as citizen rights and relations with elected officials; participants tend to be active members of community organizations. Civic Forum also assisted local organizations set up town meetings between 25 Council members and their constituents. IRI and NDI have begun new programs in which they have partnered with local NGOs in an effort to help develop effective information dissemination and public advocacy techniques.

Increasingly, activities under this IR will be implemented directly by local NGOs.¹⁵ Five Palestinian NGOs were selected to receive grants in an initial grants competition, with the first grant awarded in March 1997. The selected local NGOs will, by mid-1997, begin to train their own and other CSO staff in policy analysis; establish a hotline for reporting government abuses; post draft laws on the Internet at educational institutions for public comment; conduct televised town meetings with Council members on proposed laws; and hold town meetings for Council members and their constituents. One of the grantees is targeting women exclusively, with civic education for women's

¹⁵Although most of the over 1200 local NGOs are service-delivery oriented (the role they filled during Israeli occupation), at least 25 are interested in filling an advocacy role, and this number is expected to grow.

organizations and symposia to identify issues to bring to Council members. Any additional grants will focus on areas of the IR not fully covered by the initial group of U.S. and local grantees. This is expected to include advocacy and the media as well as a greater geographic focus on the unique needs of Gaza. FY 1998 and FY 1999 should bring a dramatic increase in the number of organized mechanisms promoting citizen awareness and participation in the legislative and policy making process. CSOs will have begun to initiate laws and policies, and will be working with the Council and the Executive as they are reviewed. Many CSOs will be engaged in advocacy; they will be more effective in disseminating information on policy issues to the public and in articulating citizen interests to decision makers.

IR 3.2: Enhanced Capability of Palestinian Legislative Council (PLC) to Perform Functions of a Legislative Body: From the date of its opening meeting on March 7, 1996, the Council demonstrated a strong awareness of democratic principles. A May 1996 assessment found Council members eager to define their relationship to the Executive in a way that ensures independence and authority. Members also spoke of the importance of an active citizenry that can mobilize support for the Council and for democratic process. Cognizant that their strength derives from their status as elected representatives, Council members view responding to constituents' needs as an important part of their responsibility. During its first six months, the council focused on electing its leadership and establishing internal operating procedures. It approved formal Standing Orders to govern its operations and formed 11 committees, each of which has oversight responsibilities. Toward the end of 1996, the Council began to staff a legal department to assist with legislative drafting and review, and to develop plans for government oversight, including budget review. Much of its attention during its early months went to development of a draft of the Basic Law, which the council passed to the Executive for comment in September. The Council has passed one law (the local elections law), finished the first readings of three (the Basic Law, the civil service law and the local government law), and is considering five others in committee.

Some members have set up individual constituency offices and there are now constituency offices in each of the 16 districts, but on the whole the council lacks the mechanisms to respond to constituents effectively. In an effort to influence the Executive during its first session, the Council passed numerous resolutions on non-legislative issues, while more formal oversight mechanisms are called for. Internal legislative procedures are also lacking. Despite an initially positive public rating (and an election day poll which showed that voters expected the Council to play an important role in "national" decision-making), opinion polls in December 1996 show Palestinians to be increasingly dissatisfied with the Council's performance. This is due, in part, to limitations posed on the Council under Oslo II, in which important issues such as negotiations with Israel remain beyond the Council's purview, and to the dearth of information on the Council in the local media. However, addressing institutional weaknesses will make the Council a much more effective body.

The bulk of USAID's support for this IR began in October 1996. Through a U.S. contractor, Associates in Rural Development (ARD), assistance is directed at three areas: executive oversight, legislative drafting and review, and constituency relations. The focus during the first months of 1997 is on televising Council plenary sessions on a pilot basis, reviewing the local government law (between the first and second reading), preparations for reviewing the executive's budget, and

assisting the new legal office. USAID has also provided basic office equipment for the 16 constituency offices. In addition, a grant with NDI is exposing council members to the experience of other legislatures. Under USAID's grant with IRI, a Parliamentary Research Unit has been set up within the CPRS, a leading local policy analysis organization, to serve as an information resource on topics related to proposed legislation; the unit is already responding to members' requests and conducting legislative analyses. Coordination with the EU, whose program of support to the Council complements USAID's and directly supports this IR, is ongoing. A calendar of joint meetings has been set to monitor progress. In addition, the Council has established a liaison committee composed of members and staff to coordinate all donor assistance, which has been meeting regularly since November.

Technical assistance over the next year will focus on the application of procedures for conduct of business (floor debate, agenda setting, voting, record keeping, bill drafting, committee structures, legislative review), along with mechanisms for policy analysis, exchange of information with the Executive, and interaction with constituents. Additional equipment for the district offices and for Council committees will also be provided. In the FY 1997-1998 period, the Council will demonstrate an increasing ability to exert EA review and oversight. The number of formal EA responses to specific requests for information from the Council will increase, as will the number of Council hearings on executive actions. The Council will improve its legislative and deliberative capacity, with at least 90 percent of draft legislation subject to public comment through hearings and other means and an increasing percentage of Council-initiated legislation reaching final resolution. Additionally, the Council will demonstrate growing responsiveness to constituent interests, and constituent ratings of their representatives will improve.

IR 3.3: Executive Authority More Effectively Performs Legislative and Public Policy Functions: The Executive Authority has assigned separate units within the Ministry of Justice (MOJ) and the Ministry of Planning and International Cooperation (MOPIC) with central roles in the drafting, review and analysis of legislation. The MOJ unit -- which is already staffed and reviewing draft laws -- will focus on the form of draft legislation to ensure it is written in the correct legal style and consistent with existing legislation. The MOPIC unit will review draft legislation and policies for clarity, technical quality and consistency with government strategy. All proposed legislation will be reviewed by both units before presentation to the Council. USAID is the only donor supporting the executive's legislative and policy making process.¹⁶

Activities under the IR are in a start-up phase¹⁷. In January, the cabinet formally approved USAID's assistance in developing a uniform and transparent EA policy making process. The U.S. contractor, Checchi and Co., began work in March 1997. By mid-FY 1998, initial organizational support to the

¹⁶Other donors will be assisting the Ministry of Justice or line ministries with drafting particular laws, but their focus will be on the substance of the law rather than process. UNDP is providing support to strengthen the Cabinet's secretariat.

¹⁷Note that previous activities which related to this IR were terminated during 1996 since they were too broadly defined to affect results targets.

two units will have led to agreement on organizational structure, staffing patterns, training requirements and commodity needs. Staff training will be underway. Drafting and review procedures will have been proposed which take into account the necessary coordination among relevant ministries, allow for public input, and assure legal and technical quality. Gender considerations will be incorporated into procedural guidelines. By the end of this year, the MOPIC unit will be staffed and working. In order to help the already-staffed MOJ unit begin its work, USAID provided \$50,000 worth of office equipment in late 1996. Additional commodity needs for the MOJ unit as well as commodity needs for the MOPIC unit will be met by early FY 1998.

During FY 1998, public consultation will increasingly become a part of the legislative and policy making functions. An increasing percentage of draft laws and policies will be formulated and reviewed in a timely manner and meet quality standards. Legislative and policy making procedures will be clearly articulated, and concerned civic actors who wish to influence the public decision-making process will have a predictable process that can be accessed. The MOJ and MOPIC units should be fully operational by March 1, 1999.

IR 3.4: Foundation for Decentralized Local Government in Place: Elections for new mayors and council members are planned for August, with approximately 4,500 council seats open. As recently reclassified, there are 473 local units, of which 408 municipalities will be served by elected councils and mayors, and 65 smaller units will have appointed local councils. The current legal framework, rules and procedures governing Palestinian local units are outdated, complex, inconsistently applied, and inappropriate in many respects for a modern, decentralized system. The Council is currently considering the local government law, which generally tasks municipalities with providing a broad spectrum of public services but does not begin to incorporate the numerous legal and regulatory requirements for a decentralized system to function properly. Moreover, the central technical function of the Ministry of Local Government (MLG) is weak, and newly elected councils and municipal staff will need training in order to perform their mandated functions in municipal management.

This IR will contribute to more responsive and accountable governance by bringing more governance functions directly to local government units and enabling citizens to participate in governance functions that directly affect their lives. An appropriate long-term objective is a decentralized system in which local governments have and apply substantial independent decision-making authority and responsibly oversee the management of municipal affairs. Given the almost complete lack of an appropriate legal/institutional structure (including a clear intergovernmental finance structure), this long term objective will not be achievable within the Strategy period. As a result, this IR will, more modestly, focus on building the foundation for decentralized local government. At present it is anticipated that the Mission will direct its work in three sub-result areas: putting in place an enabling environment (including passage of the initial set of laws necessary for decentralization and development of accompanying implementing regulations and policies) (2) increasing the capacity of PA ministries, particularly the MLG and the Ministry of Finance, to support decentralized local government (with improved organizational structures, assignment of responsibilities, and improved management skills); and (3) increasing the capacity of municipalities to assume more responsibility (with improved technical and management skills among municipal staff, particularly in financial

management and performance monitoring, and heightened understanding among elected officials of their responsibilities to citizens). An illustrative list of enabling laws, policies and regulations would include those which provide for: clear assignation of functions and resources among national and subnational institutions, central transfer mechanisms, codes for local administration of taxes and fees, mechanisms for long-term municipal finance, and a merit-based municipal personnel system. In addition, civic awareness activities (possibly to be conducted as part of activities under IR 3.1) might be appropriate, to build citizen understanding of their responsibilities in local governance.

Activity development is currently underway in consultation with potential MLG and MOF partners and other donors¹⁸. Activities will begin later in FY 1997 but will not scale up to full implementation until FY 1998.

2. Expected Progress through FY 99 and Management Actions

Expected progress through FY 99 has been detailed in the above discussions, as have key assumptions affecting the achievement of the SO, and no special management actions are required at this time. Passage of an appropriate NGO law will directly relate to the ability to achieve targeted results under IR 3.1. More broadly, PA commitment to basic democratic principles, and how this plays out in terms of efforts to exert control over the Council, new local governments or the media, will be important factors affecting the SO as a whole. While these issues are central U.S. policy concerns, the Mission will also monitor how they are affecting activity implementation and results, and will confer with AID/W if any aspects of the results framework need to be reconsidered.

3. Performance Monitoring Tables

The performance monitoring plan for the SO was developed between November 1996 and January 1997. A complete set of indicators has been defined for the first three IRs and their respective sub-results. Many of the indicators will be measured through surveys of the public and of concerned civic and government actors, while others quantify the outcomes of particular actions taken by the Council or EA. Most baselines and targets for these IRs are under development and should be complete by June. A final set of indicators, baselines and targets for the IR for local government will be developed after further analyses are completed and initial activities identified. No tables at the IR level are included below, given the lack of data; the three SO level indicator tables are included to provide context.

¹⁸The World Bank plans a major effort which will include both infrastructure and legal/institutional development components. The latter component is largely unfunded, and the Bank has indicated that it would welcome parallel USAID support in this area. EU funding is focused on physical infrastructure. Other donors are primarily funding training initiatives which lack a coordinated focus and which have, necessarily, had to take place within the context of the current local government structure.

STRATEGIC OBJECTIVE 3: More Responsive and Accountable Governance			
RESULT NAME: SO 3: More Responsive and Accountable Governance			
Indicator (a): <i>Citizen perceptions (positive) of the PA's allocation and management of public resources</i>			
Unit of Measure: Percent of positive citizen perceptions	Year	Planned	Actual
Source: Local polling/research firm	1997(B)	TBD	
Indicator Description: Per survey questions to be developed by polling firm	1998	TBD	
Comments: The allocation and management of public resources are principal tasks of both the executive and legislative branches and represent critical decisions made on the use of public resources. This indicator is tracked and reported on semi-annually. The year 2000 target is either equal to or higher than citizen perceptions in more advanced countries. The baseline and interim targets will be established in 1997. Data will be gender disaggregated.	1999	TBD	
	2000(T)	60%	

STRATEGIC OBJECTIVE 3: More Responsive and Accountable Governance			
RESULT NAME: SO 3: More Responsive and Accountable Governance			
Indicator (b): <i>Citizen perceptions (positive) of civil society's effectiveness in public decision-making</i>			
Unit of Measure: Percent of positive citizen perceptions	Year	Planned	Actual
Source: Local polling/research firm	1997(B)	TBD	
Indicator Description: Polling firm will need to establish rating system, including definition of what constitutes "positive"	1998	TBD	
Comments: This indicator measures citizen perception of civil society as a legitimate actor in the governance process. The target of 70% is higher than that for positive perceptions of the PA, since Palestinians already have a favorable impression of the role of NGOs in service delivery. Also, experience from other countries indicates that CSOs generally have a higher degree of legitimacy than government institutions in terms of ensuring that citizen interests are protected. This indicator is tracked and reported on semi-annually. Gender-disaggregated baseline and targets will be established in 1997.	1999	TBD	
	2000(T)	70%	

STRATEGIC OBJECTIVE 3: More Responsive and Accountable Governance			
RESULT NAME: SO 3: More Responsive and Accountable Governance			
Indicator (c): <i>Annual Executive Authority budget is submitted to the PLC for review and approval</i>			
Unit of Measure: Yes/No	Year	Planned	Actual
Source: USAID assessment	1996 (B)		No
Indicator Description: This indicator will be accompanied by a narrative explaining the context in which the PLC and EA are operating and the status of the EA budget process	1997	Yes	
Comments: This indicator measures the extent to which the governmental budget process is open and transparent. Although the requirement that the annual EA budget be reviewed and approved by the Council is not yet formalized in legislation (this will be part of the Basic Law which is still in draft), the Council has requested that the EA submit its 1997 budget for review. The Council did not request a copy of the 1996 budget, since by the time the Council began meeting in March 1996, the 1996 EA budget had already been approved by the Cabinet.	998	Yes	
	1999	Yes	
	2000(T)	Yes	

Special Objective No. 1: Transition to Self-Rule Facilitated

1. Performance Analysis

a. Objective Level Summary

This Special Objective has enabled USAID to support the establishment of the basic framework of a functioning and cohesive government structure for the PA. This basic framework includes elected representatives, government financing capacity (with revenues to cover operating costs) and basic definition of roles and responsibilities. USAID's role in the successful January 1996 elections for the Palestinian Legislative Council and head of the Executive was reported in last year's R4. Municipal elections, long-delayed, have now been set for August 1997. Although the Basic Law laying out the division of responsibilities between the branches of government has not yet been passed, the Council is functioning according to clearly defined operating procedures and is broadly accepted as legitimate due to its elected status. With IMF assistance in institution-building, the PA has made significant progress in revenue administration and expenditure management. With performance better than the Special Objective target, 89% of recurrent costs were covered by non-donor sources in 1996. This percentage would have been even higher in the absence of the devastating economic effects of repeated border closures. The Mission's Strategy anticipated that all activities under this Objective would end in 1996. With the one year delay in municipal elections (and the Congressional hold on the Mission's final tranche payment to the Holst Fund), activities under the Special Objective are now scheduled to end in 1997.

b. Intermediate Result-Level Performance Review

IR 1: Improved Provision of Basic Services: Through 1995, USAID provided \$39.9 million to the multi-donor World Bank-managed Holst Fund established to help the PA meet budget shortfalls during its start-up period. USAID's planned 1996 (and final) contribution to the fund remains subject to Congressional hold. As of December 1996, a total of 25 donors had contributed \$227.2 million to the Fund. Pooled donor contributions are allocated to several categories of the PA budget, with by far the largest amounts going to central administration salaries and wages for municipalities, universities, schools and hospitals. In the wake of closure-induced severe unemployment, a major emergency short-term job creation program was added in 1996. A total of \$60.4 million was disbursed from the Fund in 1996, of which \$35.5 million went to help meet the recurrent budget deficit and the remaining \$24.9 million went to support the emergency program. The 1996 recurrent budget deficit was \$95 million, only \$20 million higher than envisioned in the draft budget, despite border closures. Before the 1996 border closures and associated economic shocks, it was expected that donor budget support would not be needed beyond 1996. Assuming moderate recovery in the economy in 1997 (and an average of 35,000 Palestinian workers in Israel), along with an anticipated expansion of the revenue base and further improvements in tax administration, the PA plans to reduce the recurrent deficit to \$52 million in 1997 and hopefully to eliminate it in 1998.

IR 2: Free and Open Elections Held at the Executive, Council and Local Levels: After repeated delays, the PA has now set a date for municipal elections. These will be the first local government

elections held since 1946 in Gaza and 1976 in the West Bank. USAID is assisting the PA with elections administration through a grant with the International Foundation for Electoral Systems (IFES). With IFES providing drafting help, a local elections law was passed in December 1996 which outlines the legal framework and organizational structure for the elections. A 13-member Supreme Elections Commission (SEC) was established in December to supervise the elections, with the Minister of Local Government as Chairperson, and is convening regular meetings to coordinate donor inputs. Donor support is currently anticipated from Japan, Canada and the EU as well as the U.S. The total cost of the elections is estimated to be \$4.75 million, with \$4.15 million covered by donors and the remainder to come from the PA budget.

In the period running up to the elections, IFES will be helping to revise and correct the voter lists; providing refresher training to pollworkers; helping with ballot design, procurement and distribution; designing a public information campaign and producing voter education materials; procuring needed election supplies; and assisting with election logistics. Media messages, such as radio spots, will be specially designed to highlight the role of women as voters and as influential family members. Another channel for community-level education on voting procedures and the role of elected local councils will be NDI's Civic Forum program, which reaches 8800 people in monthly discussion groups. An estimated 408 municipal councils will be elected. Planned results include that these elections will have a higher legitimacy rating than the 1996 elections, as judged by the Palestinian populace; the majority of post-election reports from international and domestic monitoring groups will indicate that the elections were generally free and fair; and a greater percentage of voters will participate in the local elections (i.e. more than 80%) than participated in the January 1996 elections.

2. Expected Progress through FY 1999 and Management Actions

Pending lifting of the Congressional hold, USAID will transfer \$10 million to the Holst Fund, thus covering about 20% of the anticipated PA budget shortfall for 1997. In the event that Congress sustains the hold, the Mission is prepared to reprogram these funds to activities under its Strategic Objectives. However, doing so will require sufficient advance notice to permit the Mission to meet obligation schedules. The Mission requests AID/W indicate a decision on this matter by the time of the R4 review, or earlier.

3. Performance Monitoring Tables

SPECIAL OBJECTIVE 1: Transition to Self-Rule Facilitated			
RESULT NAME: SpO 1: Transition to Self-Rule Facilitated			
Indicator (a): <i>Degree to which a functioning and cohesive government structure is in place</i>			
Unit of Measure: Not in place / In place	Year	Planned	Actual
Source: USAID assessment	1995(B)		Not in place
Indicator Description: A functioning and cohesive government structure is defined as one which generates sufficient revenue to cover its operating costs, is elected and has defined roles and responsibilities among its various components	1996	Not in place	Partially in place
Comments: Although progress has been made to establish a cohesive and functioning government structure through the election of the Council and the head of the EA in January 1996 (and upcoming local government elections), the PA does not yet generate sufficient revenue to cover its operating costs and has not fully defined the roles and responsibilities of its component parts. This definition will take place if the Basic Law is passed. The law, drafted with USAID assistance, has gone through a first reading in the Council and is with the EA for comment.	1997 (T)	In place	

SPECIAL OBJECTIVE 1: Transition to Self-Rule Facilitated			
RESULT NAME: IR 1: Improved provision of basic services			
Indicator (a): <i>Percent of PA operating costs funded by non-donor sources</i>			
Unit of Measure: Percentage	Year	Planned	Actual
Source: Ministry of Finance	1994(B)		90%
Indicator Description: N/A	1995		82%
Comments: In 1995, 82% of the \$501 million operating budget was funded from PA revenues or Israeli civil administration transfers, with the remainder covered by the Holst Fund. For 1996, operating costs increased to \$779 million with the expanding jurisdiction of the Palestinian Authority, and 89% of the operating budget was covered by non-donor sources. Of the \$95 million recurrent budget deficit, \$35.5 million was disbursed from the Holst Fund, \$43.2 million was granted by the EU, \$5 million was covered by a clearance advance from Israel, and the remainder was funded from internal sources (bank overdrafts). The PA had estimated that it would be able to cover 100% of its costs through non-donor sources by 1997. It will be difficult to achieve this target, given the economic situation and continued limitations on the numbers of workers in Israel	1996	88%	89 %
	1997(T)	100%	

SPECIAL OBJECTIVE 1: Transition to Self-Rule Facilitated			
RESULT NAME: IR 2: Free and Open Elections held at the Executive, Council and Local levels			
Indicator (a): <i>Palestinians who view the elections as legitimate</i>			
Unit of Measure: Percentage	Year	Planned	Actual
Source: CPRS opinion polls	1996 (Council elections)		66%
Comments: Since elections assistance is related to two discrete elections, information will be collected related to the legitimacy of each election. In an exit poll on elections day for the Council and Head of the EA elections of 2775 voters in 143 polling stations, 66% felt that the elections were fair. Another poll will be conducted for the local elections. The Mission expects that an even larger percentage of voters will view these elections as legitimate.	1997 (Local elections)	> 66%	

SPECIAL OBJECTIVE 1: Transition to Self-Rule Facilitated			
RESULT NAME: IR 2: Free and Open Elections held at the Executive, Council and Local levels			
Indicator (b): <i>Qualitative assessments of international/domestic monitors as to the fairness and openness of both elections</i>			
Unit of Measure: Yes/No	Year	Planned	Actual
Source: International and domestic monitor reports	1996 (Council elections)	Yes	Yes
Indicator Description: A "yes" means that the majority of post-election reports from monitoring groups indicate that the elections were generally free and fair	1997 (Local elections)	Yes	
Comments: This indicator tracks the extent to which international and domestic monitors report that the elections were fair and open. For the Council elections, the reports of U.S., EU and other international and domestic monitoring groups noted that, in spite of problems, the elections were legitimate and fair.			

Special Objective No. 2: Selected Development Needs Addressed

1. Performance Analysis

a. Objective Level Summary:

Prior to the development of the Mission's Strategy, USAID initiated a series of activities designed to meet short-term development needs by building on the experience of the limited number of U.S. PVOs and U.N. agencies then active in the West Bank and Gaza. While these transitional activities ensured the rapid start-up of U.S. assistance following the signing of Declaration of Principles, they do not relate directly to the Mission's approved Strategic Objectives, and will be completed during the first two years of the Mission's five-year Strategy. Likewise, given the political rationale for the USAID/West Bank and Gaza program, the Mission must maintain the ability to respond flexibly to the emerging demands of the peace process, even if in some exceptional cases they can not be met within the definition of its Strategic Objectives. This Special Objective was approved as part of the Mission's Strategy to allow for both the orderly completion of transitional activities and the timely execution of political initiatives.

To more directly account for the latter contingency, a new Intermediate Result (IR) No. 4, "Specific Political Issues Addressed," has been introduced to the Objective's framework, with two such activities initiated to date: Emergency Medical Supplies and the Rehabilitation of Utilities in the Al Shuhada Street Area of Hebron. It is envisioned that activities will be carried out under this IR on an infrequent basis, and only in those cases where immediate USAID support is required to respond to the urgent requirements of the peace process. The Mission's transitional activities relating to housing, emergency employment and institutional development will all be completed within the next 12 months. Thereafter, this Special Objective will consist only of IR No. 4, to the extent such special political demands are placed on the USAID program. Since it is impossible to develop a general indicator for the impact of initiatives carried out under this IR, performance benchmarks will be established and tracked on an activity-specific basis.

b. Intermediate Result-Level Performance Review

IR 1: Housing Stock in Gaza Improved: During the last year, the Mission has taken steps to ensure its orderly exit from the housing sector. Construction of the USAID-financed Al Karama Towers was completed, although work continues on the EU-financed units. Currently, 187 of the 192 USAID-financed apartments are occupied by beneficiaries meeting the "lower-income" criteria identified during the design of the Project and interpreted through an audit process with the Regional Inspector General's Office. The Mission is currently working out arrangements for the use of re-flows with the Palestinian Housing Council (PHC), including assisting the PHC meet costs related to management and maintenance of the Towers. Additionally, USAID extended its Grant with the Cooperative Housing Foundation (CHF) for one year (to September 1997) to allow for the development of a transition plan that will ensure the sustainability of the \$4 million home improvement loan fund after USAID and CHF management responsibility ends. Already operating using re-flows, CHF financed the improvement of more than 700 units in Gaza in 1996. Overall,

in 1996 USAID financed the construction/improvement of more than 1,100 housing units occupied by approximately 10,000 Gazans; approximately 14% of the households receiving USAID assistance under this IR are female-headed. These overall figures exceed the targets established last year, primarily because: 1) USAID increased its investment in and extended its Grants to CHF and UNRWA; and 2) the average home improvement loan was smaller than planned, so CHF was able to provide loans to more households.

By December 1997, it is expected that the Mission will have fully accomplished its objectives in the housing sector, having constructed/improved approximately 2,800 units for 25,000 Gazans. The longer-term impact of USAID's home improvement loan program will be the establishment of a sustainable, private sector-driven credit mechanism in Gaza, providing 250-300 loans per year. In addition, other donor support could lead to a replication of the program in the West Bank. Likewise, while the construction and sale of Al Karama's lower-income housing units have had a political and social impact *per se*, the associated strengthening of the PHC (through the use of reflows) will have an impact well after USAID has disengaged from the sector.

IR 2: Temporary Employment Generated: The frequent and lengthy border closures imposed on the West Bank and--especially--Gaza during the last year resulted in serious delays in the Mission's emergency jobs creation program. While this led to construction delays, higher costs and some scaling-back of planned outputs, the employment targets established for this IR were essentially met. Specifically, USAID-financed activities with UNRWA (schools construction/rehabilitation, shelter upgrading, and after-school recreation) and UNDP (tiling and paving) resulted in more than 600 person years of employment in 1996, with up to 800 people working on any given day; approximately \$4 million in direct salaries were paid. A 15% shortfall from the target for salaries established in last year's R-4 is primarily the result of a more accurate calculation of the average daily wage paid for the after-school program (\$10/day instead of \$25/day as cited last year).

The employment situation in the West Bank and Gaza remains dire, with unemployment in 1996 reaching approximately 30% in the West Bank and 40% in Gaza. Coordinated efforts by donors and the PA helped create approximately 8,000 person years of employment in 1996, thereby ameliorating the negative short-term political and social impact of unemployment on the peace process. However, USAID--along with most other donors and PA representatives--are convinced that future investments must focus on longer-term employment creation. Therefore, the Mission will complete activities under this IR by December 1997. During 1997, USAID activities will generate another 440 person years of employment. Furthermore, between 1995-1997 employment programs financed by USAID and carried out by UNRWA and UNDP will have resulted in 26 kilometers of sidewalks/roads paved and associated water/sewer lines laid, approximately 50 schools/playgrounds rehabilitated and 80 new classrooms built, and after-school recreation programs carried out at 58 sites. Approximately 80,000 Palestinians, primarily in Gaza, will have benefited from these programs.

IR 3: Local Institutions Strengthened: In order to establish a plan for completing the two activities that fall under this IR, USAID negotiated modifications to its Cooperative Agreements with American Near East Refugee Aid (ANERA) and the Save the Children Federation (SCF). In doing

so, the Grants were reduced and workplans established for completion of activities by 1 June 1997 (the scheduled expiration date of the Agreements). SCF is concentrating assistance on six local NGO recipients of "block" sub-grants (average of \$80,000 each) and intensified institutional strengthening to these and previous recipients of smaller "sectoral" sub-grants (average of \$20,000-\$25,000 each). Although the number of local institutions that SCF is supporting will be less than originally envisioned, focus on broader-based community organizations has actually resulted in a larger pool of potential beneficiaries than previously estimated for 1996 and 1997 (up to 150,000). After many implementation delays, SCF has now completed or is nearing completion of 76 sectoral grants and 2 block grants. Approximately 50% of SCF sectoral sub-grants have been for activities specifically targeting women, in areas such as health/sanitation, civic education, vocational training and income generation. The modification of the ANERA Cooperative Agreement established a plan for completion of livestock/agricultural extension activities, limited support for the Hebron Light Industrial Complex to its first phase (44 workshops), and approved funding for a new series of irrigation projects with a focus on promoting more efficient water use. As a result of ANERA's livestock/agricultural extension and irrigation activities, 22 local organizations were strengthened and it is estimated that nearly \$3 million in production/income was generated in 1996.

By June 1997, SCF will have completed its grant activities, with as many as 60 local NGOs better prepared to carry out development projects, and 6 with direct experience in managing donor resources. Based on its experience under this Grant, SCF will continue to include organizational strengthening as an element of its future activities, and expects that the Dutch may finance a follow-on project. ANERA will have established a livestock/agricultural extension program, which will be continued with the support of the Ministry of Agriculture and financing from the USAID/W-managed Dairy Directive. A series of small-scale irrigation projects will be completed, which will lead to more efficient use of water at these sites and hopefully serve as pilots for future projects. However, serious delays have been experienced in the construction of the workshops to be financed by USAID as the first phase of the Hebron Light Industrial Complex. Some corrective measures have been taken, and the Mission will work with ANERA and the Municipality to try to ensure that construction is completed and appropriate technical assistance for the City and tenants provided by the end of May.

IR No. 4: Specific Political Issues Addressed: In the course of negotiations for the re-deployment of Israeli forces in Hebron, USAID was requested to develop and implement a plan for the rehabilitation of Al Shuhada Street. In order to ensure the re-initiation of commerce in the area while addressing Israeli security concerns, USAID's support was specifically incorporated into the ancillary documents of the Hebron Agreement signed by the PA and GOI in January. A design team was on the ground within days, and construction began in mid-March; work is scheduled to be completed in July. Compliance with this very tight time frame assumes that final technical and logistical details will be worked out with the Israeli Civil Administration. This initiative illustrates the need for and importance of this new IR, as it was directly responsive to emerging political situations. USAID's ability to provide technically sound and timely assistance under such circumstances is a critical element both in ensuring tangible benefits to Palestinians and directly facilitating the political process which is the overriding rationale for the USAID/West Bank and Gaza program.

2. Expected Progress through FY 1999 and Management Actions

Primarily due to the impact of border closures, USAID was required to pay approximately \$2.5 million in cost overruns/claims to Al Karama contractors. This, plus the additional funding required for the activities initiated under IR No.4 during the last year, will result in an increase in funding for this Special Objective beyond the total funding level cited in the Mission's Strategy (\$15.6 million). It is now estimated that USAID will have obligated a total of \$16.1 million through FY 1997 to this Special Objective. More funding may be programmed in future years for IR No. 4, based on the criteria outlined above. Therefore, by means of this R-4, the Mission establishes \$21 million as the tentative planning level for this Special Objective through the Strategy period (FY 1996-FY 2000).

3. Performance Monitoring Tables

OBJECTIVE: SPECIAL OBJECTIVE #2: SELECTED DEVELOPMENT NEEDS			
RESULT NAME: Selected Development Needs			
INDICATOR: (a) <i>Potential beneficiaries of development projects carried out by strengthened local institutions</i>			
UNIT OF MEASURE: Number (annual)	YEA R	PLANNED	ACTUAL
SOURCE: Grantee reports	Thru 1995	_____	60,000
INDICATOR DESCRIPTION: N/A	1996	70,000	153,886
COMMENTS: 1996 = ANERA 3,886; SCF 150,000 1997= ANERA 2,500; SCF 50,000 The number of beneficiaries in 1996 is more than double the figures cited in last year's R-4 because SCF provided sub-grants for more broadly-based projects than previously envisioned.	1997	52,500	

OBJECTIVE: SPECIAL OBJECTIVE #2: SELECTED DEVELOPMENT NEEDS			
RESULT NAME: Selected Development Needs			
INDICATOR: (b) <i>Income Generated</i>			
UNIT OF MEASURE: U.S. Dollar equivalent (annual)	YEA R	PLANNED	ACTUAL
SOURCE: Grantee reports	Thru 1995	_____	8,000,000
INDICATOR DESCRIPTION: Person Years (PY) x ave. wages (\$25/day; After-School: \$10/day); 1 PY = 300 Person Days	1996	4,700,000	6,322,500
COMMENTS: 1996 = 787 PYs (UNRWA w/o After-School 304, UNDP 170), 140 PYs (UNRWA After School) 1997= 289 PYs (UNRWA w/o After School 179, UNDP 8) 260 PYs (UNRWA After School) <u>Gender:</u> Women accounted for approximately 50% of wages provided under UNRWA's After-School Program. Construction projects almost exclusively employ men. <u>Note:</u> Another 300 PYs were indirectly generated through CHF's Home Improvement Loan Program in 1996.	1997	2,950,000	

OBJECTIVE: SPECIAL OBJECTIVE #2: SELECTED DEVELOPMENT NEEDS			
RESULT NAME: Selected Development Needs			
INDICATOR: (c) <i>People with new/improved housing</i>			
UNIT OF MEASURE: Number (annual)	YEA R	PLANNED	ACTUAL
SOURCE: PHC/grantee/contractor reports	Thru 1995	_____	10,000
INDICATOR DESCRIPTION: These are approximate figures based on the actual number of beneficiaries at Al Karama Towers (975) and an estimated family size of 9 for the units improved through UNRWA/CHF activities.	1996	6,000	9,291
COMMENTS: Based on following housing unit data: CY 1996 = 187 Al Karama; 718 CHF; 206 UNRWA CY 1997= 5 Al Karama; 280 CHF; 250 UNRWA	1997	4,800	

PART III: CHANGES TO MANAGEMENT CONTRACT

While the Mission's Strategy has essentially been revalidated in the current political and economic context, the Mission will continue to monitor how larger political and economic factors are affecting program progress at the SO level. These factors have been discussed in the narratives, above, and include, most importantly, the impact of GOI closures and industrial zone security arrangements on economic growth (SO 1), the impact of technical issues raised by the GOI on the water resources program (SO 2), and the impact of PA decisions regarding the independence of civil society organizations and the Council on democracy and governance (SO 3). USAID involves the Embassy in Tel Aviv and the Consul General in Jerusalem in facilitating the resolution of implementation roadblocks. At this point the major effects are in terms of delays and cost increases under contracts, and an increased demand on Mission staff time, especially in program areas which involve Mission staff in facilitating Palestinian-Israeli agreement on technical matters. (In addition, nearly all of the program is interrupted to some extent when complete border closures affect the ability of people and goods to move across borders. These types of problems pose complications but have to date been a manageable feature of the working environment.) If external factors result in sustained delays or begin to affect results in major activity areas, key elements of the strategy will need to be reconsidered. This would be done in consultation with AID/W.

No significant changes in the Mission's management contract are proposed at this time. The Mission has requested, however, that a decision be made in the near term regarding the \$10 million for the Holst Fund, so that in the event the decision is made to withdraw proposed support, the funds can be made available in a timeframe that permits reprogramming to activities under the Mission's SOs. The narrative above describes the addition of a new IR under the "Selected Development Needs Addressed" Special Objective in order to meet recent and anticipated political exigencies. The resource request section describes modest adjustments in SO and Special Objective levels within the overall Strategy amount, with levels revised based on updated estimates and a planning figure for this new IR.

PART IV: RESOURCE REQUEST

1. Financial Plan

Consistent with the pledge of financial support made by the U.S. Government following the signing of the Declaration of Principles, USAID/West Bank and Gaza hereby requests \$75 million ESF per year during the period covered by this R4. This reflects no change from the levels cited in the Mission's approved FY 1996-FY 2000 Strategy, although some adjustments have been made at the objective level. The development of new democracy initiatives, including some unexpected demands¹⁹, has resulted in an increase in the anticipated life-of-strategy funding requirements. In addition, the needs that arose for emergency medical supplies and the rehabilitation of Al Shuhada Street in Hebron make it clear that the Mission should set-aside some level of funding

¹⁹For example, due to delays in the local government elections and other-donor assistance to the Legislative Council an additional USAID investment of approximately \$1 million will be needed this FY, and assistance to civil society organizations will be greater than originally anticipated.

for urgent activities in support of the peace process under its Selected Development Needs Special Objective. Below is a summary table of the Mission's current planning levels by SO, including in some cases new planning levels that should be formally approved as part of the R4 review process. Additional details are provided in Tables 1-3

Strategic/Special Objective	Approved Funding (Life of-Strategy)	New Funding (Life-of-Strategy)	Actual FY 1996 Obl.	Planned FY 1997 Obl.	Planned FY 1998 Obl.	Planned FY 1999 Obl.
SO No. 1: Expanded Private Sector Economic Opportunities	39,800	40,000	6,644	14,100	6,300	6,000
SO No. 2: Greater Access to and More Effective Use of Scarce Water Resources	265,500	255,000	33,199	49,000	56,600	57,800
SO No. 3: More Responsive and Accountable Governance	41,000	48,000	6,587	11,100	10,600	9,700
SPO No. 1: Transition to Self-Rule Facilitated	13,100	13,500	2,914	10,500	0	0
SPO No. 2: Selected Development Needs Met	15,600	21,000	14,080	2,100	1,500	1,500
Other (primarily Builders for Peace)	500	600	396	190	0	0
Total	375,500	#378,100	63,820	86,990	75,000	75,000

#SO/SPO levels are rounded-up--generally to the next \$million, thereby causing this increase in the overall level.

As reflected in Tables 1-3, the Mission's overall pipeline will grow through FY 1996-FY 1997. While this is to be expected due to the predominance of obligations for start-up mechanisms, unanticipated implementation delays have deferred large-scale disbursements for water infrastructure construction work. However, assuming that the major issues the Mission is confronting in the water sector can be resolved, the size of the Mission's pipeline should peak this FY and is not a factor that requires any corrective budgetary actions at this time.

USAID/West Bank Gaza's operating expense budget request for FY 1998 and FY 1999 is \$3,552,800 and \$3,870,800, respectively, inclusive of ICASS charges. The budgets for both years are based on an OE-funded staffing level of 46, comprised of 15 USDH and 31 locally recruited employees. Including program-funded positions, the Mission staff ceiling is 58. The Mission currently has a staff of 48 OE-funded and program-funded employees, working out of two locations, Jerusalem and Tel Aviv. It is expected that all 58 positions will be filled by December 31, 1997.

Given the need to regularly conduct business with a number of counterparts that are based in Gaza, since 1994 the Mission has planned on opening a satellite office there. This year, as in previous

years, our efforts in this regard have been frustrated by overriding security issues. Therefore, we will once again return the funds budgeted in FY 1997 for this purpose to the Bureau, and have chosen not to budget for a Gaza office in FY 1998 or FY 1999. However, we shall continue to pursue this option, and will request additional funds if security concerns permit the opening of an office in Gaza.

2. Prioritization of Objectives

The Mission's three Strategic Objectives represent a comprehensive package of initiatives in areas where the U.S. Government has comparative technical advantages, as well as particular developmental and political interests. While the relative significance between these SOs might be weighed in terms of resource levels, given the politics at play, it is impossible for the Mission to suggest that one is a higher priority than another. Likewise, given the recent start-up of activities (and the political nature of the program), ranking the performance to date of SOs would be of limited relevance. The Mission's planned funding level through the R4 period remains sufficient to accomplish the Objectives laid out last year, although the problems being faced in the water sector could impact future resource allocation decisions (either within the Water SO or between SOs).

3. Linkage of Field Support

Table 4 outlines the Mission's expected field support requirements through FY 1999. Because of the fluid nature of this program and the positive experience the Mission has had in accessing Global Bureau mechanisms on relatively short notice, it is possible that other requests for field support will be forthcoming. Mission SO Teams will stay in contact with their counterparts in the Global Bureau to engage them as early as possible in the planning stages of such support.

4. Workforce and OE

We have reviewed the staffing allocations provided us and concur with the reduction of the overall staff ceiling from 61 to 58 beginning this Fiscal Year. Of this total, 36 positions are listed in the R-4 tables as support office personnel, based on the format provided by USAID/W. However, given the structure of the Mission, many of these employees are fully integrated members of one or more strategic objective teams, directly supporting or managing elements of the activities within USAID's portfolio. While this staffing level should be sufficient to support the accomplishment of the Mission's objectives as outlined in its approved Strategy, the unique circumstances under which the USAID/West Bank and Gaza program operates could affect the future size and composition of its staff. For example, certain restrictions have always existed on FSN access to Gaza, the West Bank and/or Tel Aviv. Over the course of the last year, the Mission has been able to manage its portfolio despite these restrictions. However, it is conceivable that worsening conditions could require double encumbering certain positions (i.e., West Bank and Gaza FSNs) or increasing the Mission's USPSC levels.

5. Environmental Compliance

During the past year, the ANE Environmental Officer has provided assistance related to assessments of the Gaza Industrial Estate, water supply development, waste/storm water systems in Gaza, and the Gaza Wastewater Treatment Plant. At least some of these will require follow-up actions to ensure compliance with 22 CFR 216 (e.g., possible re-charge schemes under the Gaza Wastewater Project). It is also anticipated that periodic and substantive support from the ANE Environmental Officer will be required throughout the design, procurement and implementation of the second phase of the Mission's Water SO, which is scheduled to begin in FY 1998.

6. BHR Requirements

Not Applicable.

MISSION SUBGOAL

Palestinians Realize
Tangible Benefits from
the Peace Process

Strategic Objective No. 1 Expanded Private Sector Economic Opportunities	Strategic Objective No. 2 Greater Access to and More Effective Use of Scarce Water Resources	Strategic Objective No. 3 More Responsive and Accountable Governance	Special Objective No. 1 Transition to Palestinian Self-Rule Strengthened	Special Objective No. 2 Selected Development Needs Addressed
<p>Indicators:</p> <ol style="list-style-type: none"> 1. Proportion of the labor force fully employed, male and female 2. Private sector revenue 3. Exports of assisted firms 4. Value of total sales in assisted firms 	<p>Indicators:</p> <ol style="list-style-type: none"> 1. Domestic consumption rate (metered) 2. Agricultural and industrial requirements met with non-potable sources 3. Gross volume of potable water supply (urban) 	<p>Indicators:</p> <ol style="list-style-type: none"> 1. Citizen perceptions (positive) of the PA's allocation and management of public resources 2. Citizen perceptions (positive) of civil society's effectiveness in public decision-making 3. Annual Executive Authority budget submitted to PLC for review and approval 	<p>Indicators:</p> <ol style="list-style-type: none"> 1. Palestinians who view the elections as legitimate 2. Free and open elections held at the Executive, Council and Local levels 	<p>Indicators:</p> <ol style="list-style-type: none"> 1. Potential beneficiaries of development projected carried out by strengthened local institutions 2. Income generated 3. People with new/improved housing 4. Specific political issues addressed

MISSION SUBGOAL

Palestinians Realize
Tangible Benefits from
the Peace Process

Strategic Objective No. 1 Expanded Private Sector Economic Opportunities	Strategic Objective No. 2 Greater Access to and More Effective Use of Scarce Water Resources	Strategic Objective No. 3 More Responsive and Accountable Governance	Special Objective No. 1 Transition to Palestinian Self-Rule Strengthened	Special Objective No. 2 Selected Development Needs Addressed
294-0001 Small Business Support/DAI 294-0016 Small Scale Community Infrastructure-YMCA 294-0018 Microenterprise Development 294-0023 Industrial Zone Development 294-0025 Private Sector Policy 940-2003 Micro & Small Business Loan Portfolio Guarantee	294-0020 Gaza Wastewater 294-0021 Water Resources 294-0159.48 Integrated Rural Development/Village Water Supply (CRS)	294-0007 Democracy Understanding and Development	294-0015 Holst Fund 294-0007 Democracy Understanding and Development/IFES	294-0159.53 Institutional Development/SCF 294-0006 Gaza Housing 294-0021 Water Resources/Hebron (Shuhada) 294-0024 Builders for Peace

PERFORMANCE DATA TABLE

(Country Name)	Date/Month SO approved:			
STRATEGIC OBJECTIVE 1: (or INTERMEDIATE RESULT 1.1): <i>(Increased Use of Family Planning Practices)</i>				
Indicator: <i>(e.g modern method contraceptive prevalence rate)</i>				
Unit of Measure: <i>(e.g. percent of married women 15 to 49 who are using one of the following modern contraception methods: oral contraceptives, IUDs, or norplant)</i>		Year²⁰	Planned²¹	Actual
Source: <i>(e.g. Demographic and Health Surveys)</i>	Baseline	(Year)		
Comments: <i>(Add where necessary any information on the indicator data source or other information that will contribute importantly to the users' understanding of the measurement process or the performance itself. Examples:</i> <i>-- frequency of data collection--especially if it cannot be obtained annually e.g certain surveys in 1993, 1995 and 1997;</i> <i>-- preliminary result information from a survey to be finalized by such and such a date;</i> <i>-- discrepancy in planned or actual results -- e.g. result not achieved on time because of delay in obtaining key commodity and mission believes planned result will be reached by such and such a date)</i>		1991		
		1992		
		1993		
		1994		
		1995		
		1996		
		1997		
	Target	1998		

²⁰The mission lists all years from the baseline to the final target year. If the data is not collected every year, this should be explained in the comments section.

²¹Planned results are the interim and final performance targets which the mission sets for the performance indicator.

Example:

PERFORMANCE DATA TABLE

Karlanda		Date/Month SO approved:		12/94
STRATEGIC OBJECTIVE 1: Increased Use of Family Planning Practices				
Indicator: Modern method contraceptive prevalence rate				
Unit of Measure: Percent of married women 15 to 49 who are using oral contraceptives, IUDs, or Norplant	Year	Planned	Actual	
Source: Demographic and Health Surveys	1991 (B)	12%	12%	
Comments: 1996 data will be available in early 1997 following a countrywide DHS. The last DHS was completed in 1993.	1994	15%	14%	
	1996	18%		
	1998 (T)	20%		